

ATLANTIC AMERICAN CORP
Form 10-K
March 29, 2016
TABLE OF CONTENTS

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended December 31, 2015

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of incorporation or
organization)

58-1027114

(I.R.S. Employer Identification No.)

**4370 Peachtree Road, N.E.,
Atlanta, Georgia**

(Address of principal executive offices)

30319

(Zip Code)

(Registrant's telephone number, including area code) (404) 266-5500

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of exchange
Common Stock, par value \$1.00 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of voting and nonvoting common stock held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$16,176,502. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 15, 2016 there were 20,394,007 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

TABLE OF CONTENTS**TABLE OF CONTENTS**

	Page
PART I	
<u>Item 1.</u>	
<u>Business</u>	1
<u>The Company</u>	1
<u>Marketing</u>	2
<u>Underwriting</u>	4
<u>Policyholder and Claims Services</u>	4
<u>Reserves</u>	5
<u>Reinsurance</u>	8
<u>Competition</u>	9
<u>Ratings</u>	9
<u>Regulation</u>	10
<u>NAIC Ratios</u>	10
<u>Risk-Based Capital</u>	11
<u>Investments</u>	11
<u>Employees</u>	12
<u>Financial Information by Industry Segment</u>	12
<u>Available Information</u>	12
<u>Executive Officers of the Registrant</u>	12
<u>Forward-Looking Statements</u>	13
<u>Item 1A.</u>	
<u>Risk Factors</u>	13
<u>Item 1B.</u>	
<u>Unresolved Staff Comments</u>	13
<u>Item 2.</u>	
<u>Properties</u>	13
<u>Item 3.</u>	
<u>Legal Proceedings</u>	14
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	14
PART II	
<u>Item 5.</u>	
<u>Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	15
<u>Item 6.</u>	
<u>Selected Financial Data</u>	16
<u>Item 7.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 7A.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 8.</u>	
<u>Financial Statements and Supplementary Data</u>	26
<u>Item 9.</u>	
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	52
<u>Item 9A.</u>	
<u>Controls and Procedures</u>	52
<u>Item 9B.</u>	
<u>Other Information</u>	52

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>53</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>53</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	<u>53</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>53</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>53</u>

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>54</u>
-----------------	--	-----------

TABLE OF CONTENTS

PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the *Parent* or *Company*), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The *Parent*'s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as *American Southern*) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as *Bankers Fidelity*) within the life and health insurance industry. Each of *American Southern* and *Bankers Fidelity* is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The *Company*'s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of *American Southern* and *Bankers Fidelity* operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The *Parent* has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the *Parent* can be found in the Liquidity and Capital Resources section of *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Property and Casualty Operations

American Southern comprises the *Company*'s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (*block accounts*) that can be specifically rated and underwritten. The size of the *block accounts* insured by *American Southern* are generally such that individual class experience can be determined, which allows for customized policy terms and rates. *American Southern* is licensed to do business in 32 states and the District of Columbia. While the majority of *American Southern*'s premiums are derived from its automobile lines of business, *American Southern* also offers business personal property, inland marine and general liability coverages. Additionally, *American Southern* directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds.

TABLE OF CONTENTS

The following table summarizes, for the periods indicated, the allocation of American Southern's net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2015	2014
	(In thousands)	
Automobile liability	\$ 24,786	\$ 26,438
Automobile physical damage	13,290	11,633
General liability	3,152	3,577
Surety	9,192	7,309
Other lines	4,088	3,697
Total	\$ 54,508	\$ 52,654

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products with a focus on the senior markets. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products. Health insurance products, primarily Medicare supplement insurance, accounted for 89.2% of Bankers Fidelity's net earned premiums in 2015 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2015, 77.4% were health insurance policies and 22.6% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity's net earned premiums from each of its principal product lines followed by a brief description of the principal products:

	Year Ended December 31,	
	2015	2014
	(In thousands)	
Life insurance	\$ 10,454	\$ 10,887
Medicare supplement	81,068	85,197
Other accident and health	4,862	4,750
Total health insurance	85,930	89,947
Total	\$ 96,384	\$ 100,834

Life Insurance products include non-participating individual term and whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 11 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing nursing facility care, accident expense, hospital indemnity and disability coverages.

Marketing

Property and Casualty Operations

A portion of American Southern's business is marketed through a small number of specialized, experienced independent agents. American Southern's agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern's agents are paid an up-front commission with the potential for

2

TABLE OF CONTENTS

additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations and there can be no assurance with respect to ultimate profitability or that the company can obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity markets its policies through three distribution channels all of which utilize commissioned, independent agents. The three channels utilized include traditional independent agents, broker-agents typically interested in a specific product of Bankers Fidelity and special market agents who promote workplace, association and/or branded products.

Bankers Fidelity has implemented an agent qualification process and had 3,447 licensed agents as of December 31, 2015. The agents generally concentrate their sales activities in both the accident and health or life insurance product lines. During 2015, approximately 872 of the licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity, in an effort to motivate all of its licensed agents to market its products, offers the following: competitive products and commission structures, efficient claims service, prompt payment of commissions that vest immediately, simplified policy issuance procedures, periodic sales incentive programs and, as described below, for traditional independent agents, protected sales territories determined based on specific counties and/or zip codes.

In the traditional independent agent arrangement, Bankers Fidelity enters into contractual arrangements with various regional sales directors and general agents responsible for marketing and other sales activities, who may also, in turn, recommend appointment of other independent agents. The standard agreements set forth the commission arrangements and are terminable without cause by either party upon notice. Regional sales directors and general agents receive an override commission on sales made by their sponsored agents. Management believes utilizing experienced agents, as well as independent general agents who recruit and train their own agents, is cost effective. All independent agents are compensated primarily on a commission basis. Using independent agents also enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

With the traditional independent agents, the company utilizes a lead generation system that rewards qualified agents with leads in accordance with certain production criteria. In addition, a protected territory is established for qualified agents, which entitles them to all leads produced within that territory. The territories are zip code or county based and encompass sufficient geographic territory designed to produce an economically serviceable senior population. The Company believes that offering a lead generation system solves an agent's most important dilemma -- prospecting -- and allows Bankers Fidelity to build long-term relationships with agents who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity's product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation system. In protected geographical areas, production per agent has historically compared favorably to unprotected areas served by the general brokerage division.

Products of Bankers Fidelity compete directly with products offered by other insurance companies, and agents may represent multiple insurance companies. Broker-agents generally are not interested in developing relationships with any one particular insurance company but are more interested in matching a specific product with the specific needs of their clients. These agents, while a source of business, do not participate in the company's lead generation system, but can qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

Bankers Fidelity also has a number of agents, some of whom belong to marketing organizations that solicit business from various groups including employers, trade associations and/or other organizations. Depending on the group's needs, these agents may target one specific product or a group of Bankers Fidelity's products to market to a group's members. These agents also do not participate in the company's lead generation system, but can also qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

TABLE OF CONTENTS

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. When results are below expectations, management takes corrective action which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products for both life and health insurance markets, with a focus on senior life insurance products typically with small face amounts of between \$3,000 and \$50,000, and Medicare supplement insurance. The majority of its products utilize Yes or No applications that are underwritten on a non-medical basis. Bankers Fidelity offers products to all age groups; however, its primary marketing focus is the senior market which is generally defined as individuals 65 years of age or older. For life products offered to other than the senior market, Bankers Fidelity may require medical information, such as medical examinations, subject to published age guidelines and coverage limits. Approximately 89% of the annualized premiums for both life and health insurance sold during 2015 were derived from insurance written on a non-medical basis. For the senior market, Bankers Fidelity offers life products primarily on a simplified policy issue basis with coverage amounts up to \$50,000 for preferred rates, up to \$35,000 for standard rates and up to \$20,000 for graded death benefits and modified rates. Bankers Fidelity retains a maximum coverage amount of \$100,000 with respect to any individual life policy (see Reinsurance).

Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the Medical Information Bureau (M.I.B.), paramedical testing, and/or medical records. Bankers Fidelity may also utilize investigative services to supplement and substantiate information. For certain limited coverages, Bankers Fidelity has adopted simplified policy issuance procedures by which an application containing a variety of health related questions is submitted. For these plans, Bankers Fidelity obtains M.I.B. and prescription drug utilization reports and conducts a telephone interview, however, will generally not request paramedical testing or medical records.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see Competition). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity's website. To shorten claim processing time, a letter detailing all supporting documents that are

4

TABLE OF CONTENTS

required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

The following table sets forth information concerning the Company's reserves for losses and claims and reserves for loss adjustment expenses (LAE) for the periods indicated:

	2015	2014
	(In thousands)	
Balance at January 1	\$ 66,625	\$ 63,018
Less: Reinsurance receivable on unpaid losses	(14,302)	(14,314)
Net balance at January 1	52,323	48,704
Incurred related to:		
Current year	99,447	104,225
Prior years ⁽¹⁾	(701)	(483)
Total incurred	98,746	103,742
Paid related to:		
Current year	68,159	72,443
Prior years	30,781	27,680
Total paid	98,940	100,123
Net balance at December 31	52,129	52,323
Plus: Reinsurance receivable on unpaid losses	11,741	14,302
Balance at December 31	\$ 63,870	\$ 66,625

⁽¹⁾ Favorable loss development from life and health operations for the years ended December 31, 2015 and 2014 was \$0.7 million and \$0.3 million, respectively. See Note 3 of Notes to Consolidated Financial Statements. Reserves are set by line of business within each of the subsidiaries. At December 31, 2015, approximately 80% of the reserves related to property and casualty losses and approximately 20% related to life and health losses. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; although policy reserves related to such contracts have been previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves)

emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting

TABLE OF CONTENTS

Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported (IBNR) reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

Components of the Company's reserves for losses and claims by product line at December 31, 2015 were as follows:

	Case	IBNR	Total
		(In thousands)	
Business automobile	\$ 18,801	\$ 13,934	\$ 32,735
Personal automobile/physical damage	1,546	215	1,761
General & other liability	1,533	7,793	9,326

Edgar Filing: ATLANTIC AMERICAN CORP - Form 10-K

Other lines (including life)	3,847	4,520	8,367
Medicare supplement	149	9,543	9,692
Unallocated loss adjustment reserves	—	1,989	1,989
Total reserves for losses and claims	\$ 25,876	\$ 37,994	\$ 63,870

6

TABLE OF CONTENTS

The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2015 actuarial review indicated that reserves could be as much as 13.8% lower or as much as 6.0% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE, and which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

The following table sets forth the development of reserves for unpaid losses and claims determined using generally accepted accounting principles of American Southern's insurance lines from 2005 through 2015. Specifically excluded from the table are the life and health division's claims reserves, which are included in the consolidated loss and claims reserves. The top line of the table represents the estimated cumulative amount of losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date for each of the indicated periods, including an estimate of IBNR losses at the applicable date. The amounts represent initial reserve estimates at the respective balance sheet dates for the current and all prior years. The next portion of the table shows the cumulative amounts paid with respect to claims in each succeeding year. The lower portion of the table shows the re-estimated amounts of previously recorded reserves based on experience as of the end of each succeeding year.

The reserve estimates are modified as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy for each year represents the aggregate change in such year's estimates through the end of 2015. Furthermore, the amount of the redundancy for any year represents the cumulative amount of the changes from initial reserve estimates for such year. Operations for any year may be affected, favorably or unfavorably, by the amount of the change in the estimate for such years; however, because such analysis is based on the reserves for unpaid losses and claims, before consideration of reinsurance, the total indicated redundancies may not